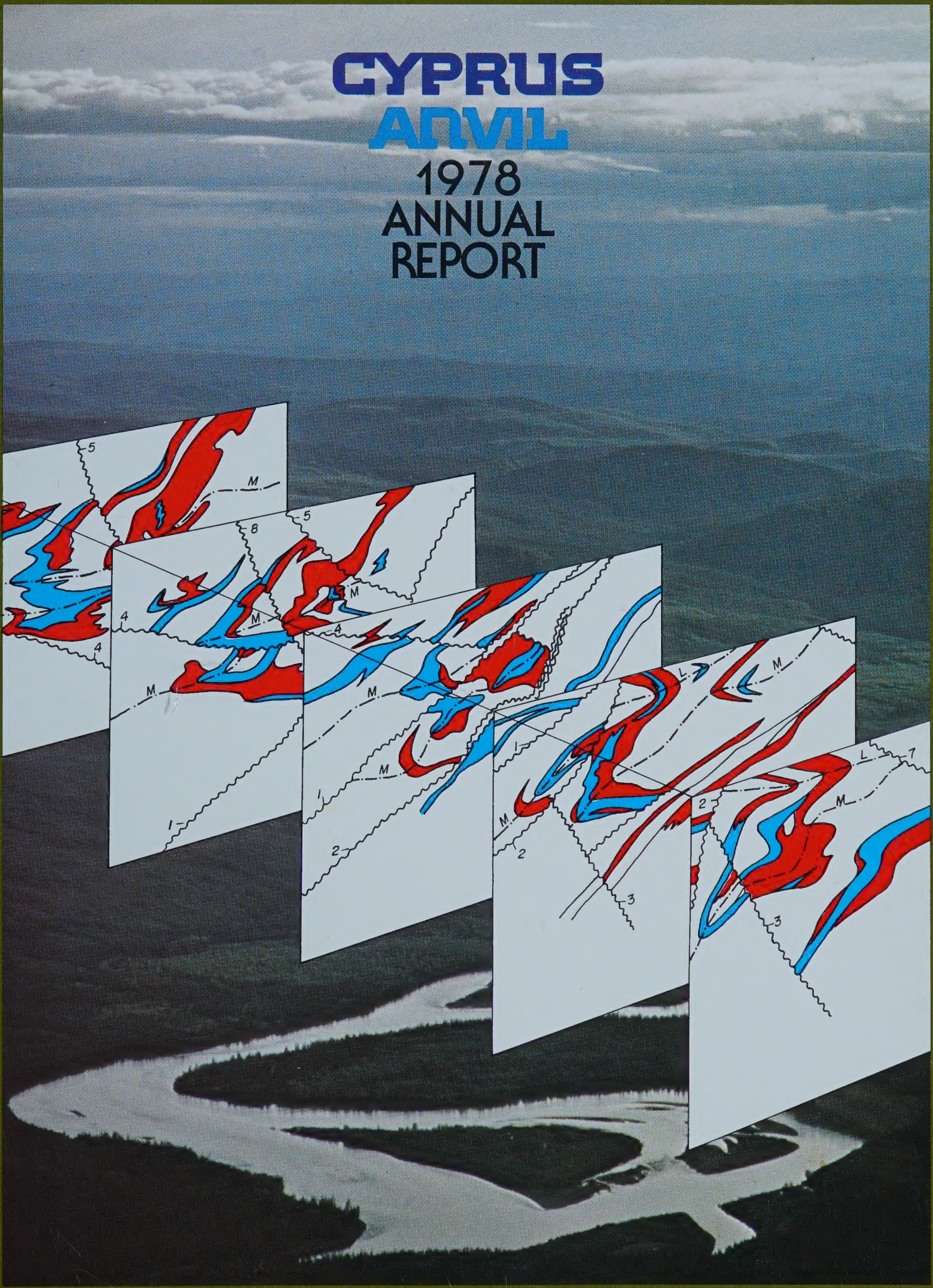
CYPRUS ANVIL

1978 ANNUAL REPORT



CYPRUS ANVIL

1978 Annual Report

Annual Meeting

The Annual Meeting of the Company will be held on Friday, May 4th, 1979 at 11 a.m. in the Regency Ballroom East, Hyatt Regency Hotel, Vancouver, British Columbia.

Table of Contents

Acquisition Program

On the cover of this Report is a sectional diagram of the central ore zone of the Grum Deposit, one of the three lead/zinc deposits being acquired by the Company in the Anvil District of the Yukon. The centre spread of the Report is devoted to this important acquisition and the substantial positive impact it will have upon the Yukon, the town of Faro, our employees and our shareholders.

Metric Measures *The mining industry in Canada has established a goal to convert fully to the metric system of weights and measures by the end of the year 1980. This Report is the first publication of your Company to meet this requirement and metric measures will be used in all future reports. To assist you in adapting to the metric measurements, the following table provides the equivalent Metric and Imperial measures.*

Weights of lead and zinc concentrate are usually stated as Dry Tonnes. This is to differentiate between the actual weight, including moisture content, of concentrate produced and shipped from minesite and the net dry weight on which tonnages and assays for sales agreement purposes are based.

Metric Measurement		Imperial Measurement	
1	Tonne	1.102	Short Tons
0.907	Tonnes	1	Short Ton
1	Kilogram	2.205	Pounds
0.454	Kilograms	1	Pound
1	Gram	0.032	Troy Ounces
31.1	Grams	1	Troy Ounce
1	Metre	3.381	Feet
0.305	Metres	1	Foot
1	Kilometre	0.621	Miles
1.609	Kilometres	1	Mile

Five Year Review

Financial*

	1978	1977	1976	1975	1974
Total Revenues ($000s)	140,211	126,459	56,666	157,877	128,463
Net Income (Loss) ($000s)	6,985	4,934	(1,449)	18,380	24,305
Per Share ($)	0.92	0.65	(0.19)	2.41	3.19
Shareholders Equity ($000s)	80,372	74,524	74,159	80,177	66,366
Per Share ($)	10.55	9.79	9.74	10.53	8.71
Working Capital ($000s)	21,942	13,171	10,468	18,841	6,006

**Results for 1976 and prior years are restated to reflect changes in accounting policy.*

Production

Ore Milled — Dry Tonnes (000s)	3,280	3,116	1,520	2,926	2,654
Average Grade of Ore Milled					
% Lead	3.17	2.74	2.66	4.03	4.51
% Zinc	5.14	4.88	5.48	5.41	5.60
Concentrates Produced					
Lead — Dry Tonnes	134,328	100,390	43,421	131,954	134,734
Zinc — Dry Tonnes	246,375	220,831	114,876	209,103	188,186
Mixed Lead and Zinc — Dry Tonnes	32,931	36,855	24,622	69,956	65,585

Marketing

Payable Metal Sold*					
Pounds of Lead (000s)	167,535	145,670	65,963	264,943	192,743
Pounds of Zinc (000s)	213,112	226,355	103,750	254,834	174,034
Ounces of Silver (000s)	1,745	1,254	464	3,335	2,451
Average Prices During Year					
Per Pound of Lead	34.3¢	30.1¢	20.4¢	19.2¢	26.2¢
Per Pound of Zinc	31.5¢	34.7¢	35.6¢	37.5¢	34.5¢
Per Ounce of Silver	$6.12	$4.88	$4.25	$4.49	$4.58

**Units of payable metal content of concentrates in this Report continue to be stated in Imperial measure which, at this time and for these purposes, remains in most common use in Canada and the United States.*

To Our Shareholders:

Your Company ended the year 1978 on a strong recovery trend as a result of steadily improving lead, zinc and silver prices, better ore grades during the second half of the year, and exchange gains from a lower Canadian dollar. These several factors contributed toward net earnings of $6,985,000, or 92 cents per share, on sales of $140,211,000.

This earnings level, though still modest in relation to the Company's potential, shows the trend noted in previous annual reports. In 1977, the Company reported net earnings of $4,934,000, or 65 cents per share, from sales of $126,459,000, while in 1976 the Company sustained a loss of $1,449,000, or 19 cents per share, on sales of $56,666,000.

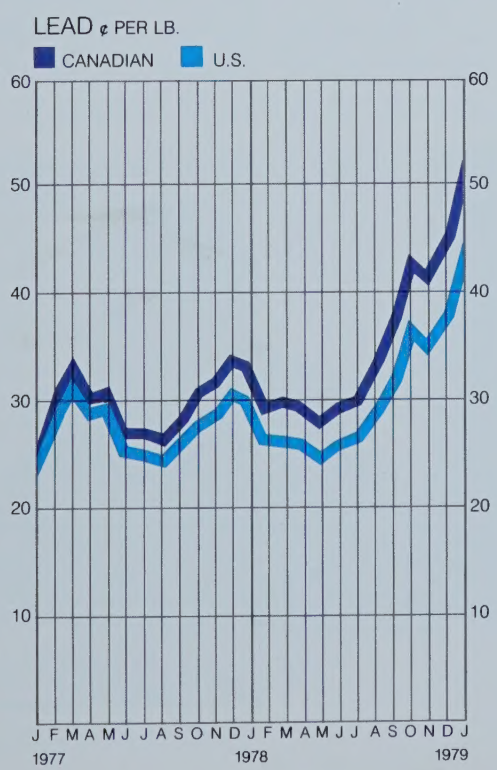
Concentrates sold in 1978 had a payable metal content of 167,535,000 pounds of lead, 213,112,000 pounds of zinc and 1,745,000 ounces of silver. This compares with 145,670,000 pounds of lead, 226,355,000 pounds of zinc and 1,254,000 ounces of silver in 1977.

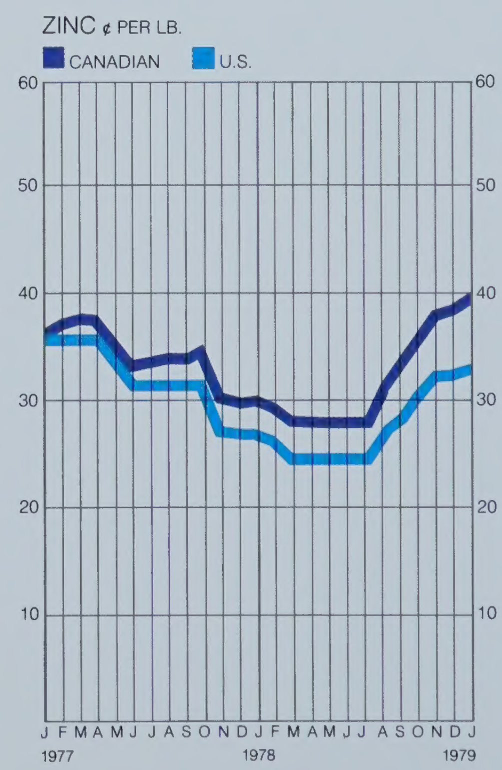
In the first six months of 1978, the Company recorded a loss of $4,461,000 due largely to falling zinc prices combined with lower ore grades treated during the period. In the last half, however, lead and zinc metal prices increased and ore grades were above average. This resulted in a sharp turnaround in 1978 earnings.

With the improvement in earnings in the last half of the year, the Company reinstated dividends of 15 cents per quarter, beginning with the December payment.

During the year the Company augmented its long and medium-term sales contracts with its Japanese, German and American customers with the sale of 60,000 dry tonnes of lead and zinc concentrates to the Soviet Union during 1979-80. The competitive terms of this contract, combined with reductions in smelting charges by our Japanese customers, are expected to produce significant reductions in over-all smelting charges in 1979.

Another agreement involving Cyprus Anvil was reached in 1978 which will have a significant impact on the Company in the long term. This agreement involves the acquisition by your Company of all the mineral properties within the Anvil District of Kerr Addison Mines Ltd. and Canadian Natural Resources Ltd., as well as Kerr Addison's 70% interest in Vangorda Mines Ltd., and all the outstanding shares of Vangorda Mines Ltd. Approval of this agreement by the Foreign Investment Review Agency is required and, though not yet received, we anticipate that all arrangements will be completed by May 1st, 1979.





As detailed in another section of this report, the acquisition adds substantial new lead-zinc ore reserves to the Company's Faro operations and considerable new exploration potential for additional reserves. In a broader sense, however, the acquisition achieves a long-standing objective of Cyprus Anvil Mining Corporation, namely, to add to the longevity and profitability of our Faro operations, so that we can build upon them and thereby benefit the Company, shareholders, employees and their families, and the community. This has been a goal toward which we have been moving for some time in our planning. Cyprus Anvil now has a strong and assured base for significant future growth, utilizing Faro as its foundation. As a result, the Company is now turning its attention to expanding into other mineral developments in Western Canada.

Response to this acquisition has been favourable and is, we believe, a recognition of the mutuality of interests that many groups share in an enterprise such as Cyprus Anvil. We are confident that it will benefit all who have an interest in our affairs.

We also believe the acquisition is an affirmation of the Company's faith in the Yukon and its people and that, with their support, it will provide the Territory with a growing and stronger economic base in the years ahead.

In last year's annual report we stated that one of our objectives in 1978 was to achieve improved relations with our employees, particularly through better communications.

Our employees, and their union — the United Steelworkers of America — have responded. The fact that there were no work interruptions in 1978 is indicative of the progress attained. New two-year collective agreements were negotiated in 1978. Despite this progress however, a brief work stoppage in early 1979 indicates that all of our employees, in management and in production, must continue to analyze and develop their relations on a priority level. A continuing task will be to give recognition to the fact that everyone has a share in, and therefore a need to contribute to, the goal of a secure future.

The lower value of the Canadian dollar had a positive impact upon our results in 1978, since all of our sales are paid in United States dollars.

In a general sense, the devaluation of the dollar has helped all of Canada's industries compete more effectively in domestic and world markets and has contributed to an improvement in earnings. However, it is important to realize that this is a temporary situation, and that the only way in which our resource industries can make real progress, and thereby increase their ability to provide economic support for Canada, is to improve productivity. This challenge must be faced by all Canadians. Better productivity will improve the value of the Canadian dollar and in so doing will help protect the earnings and purchasing power of employees.

At the same time that metal prices are improving, we believe the political climate as it affects the resource industries in Canada is also improving.

Governments appear to be recognizing the importance of the mining industry in contributing to the economic well-being and employment of Canadians. An example of this recognition was the formation in 1978, at the initiative of our industry, of the Northern Mineral Advisory Committee. The purpose of the Committee, which is composed of federal, territorial and industry representatives, is to determine a mineral policy and strategy for the Yukon and Northwest Territories that will benefit all concerned. We are encouraged by this development and we are hopeful it will lead to further cooperation and assistance.

For the time ahead, your Company has a number of goals it will be pursuing. The success of Cyprus Anvil in achieving these goals will depend not only on our ability to discover and acquire new mineral deposits but also on people. It is our firm belief that a company is made up of people and that the measure of a company is the diligence and dedication of its employees at all levels. To that end, we have encouraged individual employee development and promoted open communication at all levels, and will continue to do so. We believe efforts in this direction in the past have proven most successful and have contributed in no small way to the substantial and visible improvement in employee relations.

In a wider sense, our major goal can be stated quite simply. It is to duplicate the success of the Anvil District elsewhere in Western Canada. To that end, we will be directing our considerable exploration and acquisition efforts in two areas where we believe our experience and district-wide approach can be fruitful. They are in metallurgical coking coal in the Torrens region of Alberta and lead-zinc exploration in the promising Gataga region near Williston Lake in northeastern British Columbia.

John Bruk, President and Chief Executive Officer

The outlook for 1979 is favourable. We anticipate that, from the depressed part of the down cycle for metal prices experienced in the last several years, the improvement will continue. Zinc markets should continue their slow but steady climb from depressed levels, while lead will likely remain buoyant with tight supplies contributing to strong prices. We expect an overall better performance in 1979 which will be aided by the continued advantage of a lower Canadian dollar.

A number of senior appointments have been made by the Board of Directors. R.E. Gordon Davis, who was Senior Vice President, was appointed Executive Vice President. James F. Olk, who was Vice President and General Manager, was named Senior Vice President. Robert L. Cook, previously Vice President and Treasurer, was appointed Senior Vice President and Treasurer, and Andrew H. von Kursell, formerly Resident Manager, Faro, was appointed Vice President, Yukon Operations.

The efforts and support of all of Cyprus Anvil's employees contributed toward the progress we made in 1978. We anticipate continued support and progress in the time ahead and look forward to the challenge of 1979 with confidence and optimism.

John Bruk,
President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Operations

Operations at the Company's lead-zinc mine at Faro were on target during 1978 with no major problems encountered. The mine continued, in its ninth full year of operation, to run on a seven-day per week, 24-hour day basis.

Mine production totalled 8,020,040 cubic meters of which 7,254,167 cubic meters was waste stripping. A total of 3,279,992 tonnes of ore was milled during the year, for an average daily throughput of 8,986 tonnes.

The grade of mill feed was 3.17% lead and 5.14% zinc, for a total combined feed grade of 8.31%. Concentrates produced during the year were 134,328 dry tonnes of lead, 246,375 of zinc and 32,931 of bulk.

Concentrator throughput was close to designed capacity. Except for one period of several weeks when a grinding unit was down for overhaul, the concentrator availability was very good as the result of a substantial improvement in the maintenance program.

Metallurgical recoveries in the concentrator were at the levels projected for the year though lead concentrate grade was lower due to refractory ore types being milled.

Mill feed grades during the first part of the year were generally below projections but during the latter part of the year they were above plan. For the year as a whole, the lead portion of the feed grade was close to that forecast, while the zinc portion was somewhat lower. In spite of continually rising mill reagent and supply costs during the year, the unit cost milled was lower than the previous year by about 3%.

A period of extreme cold weather in the first month of the year and lower mechanical availability of some equipment at other times affected mine production. However, ore development generally kept pace with mill requirements.

During the last quarter of the year, the older unit of the 15 cubic yard shovel fleet was removed from service for a maintenance overhaul but the resulting loss of waste stripping capacity was made up by contracting a certain amount of waste removals.

The major item in the capital program for 1978 was the revision of the concentrate loadout system at the mill. The storage structure was modified in order to reduce the incidence of cross-contamination of concentrates that occurred in the old storage shed and to provide better working conditions. Substantial improvements were also made in the weigh scale area, including a new scale for weighing concentrate truck loads. The scale was required in order to accommodate new tandem trailer trucks which handle 40 tonnes compared with 27 tonnes for the older single trailer trucks. This latter modification resulted in lower haulage rates, as well as more efficient and economical truck loading at the loadout.

Other major capital additions included a new rotary blast hole drill and a replacement rubber-tired dozer in the mine.

Two-year Collective Bargaining Agreements, effective October 1, 1978, were concluded with the two Locals of United Steelworkers of America Union at Faro representing the Production Group and the Office and Technical Group. Personnel turnover continued to be relatively low, and labour relations in general showed a marked improvement this year.

The ore reserve re-evaluation program originally scheduled to be completed in 1978 has been carried over for completion in 1979. However, no material change is anticipated from the estimates prepared at the end of 1978. Ore reserves in the Faro deposits were then estimated to be 34.2 million tonnes with an average grade of 8.6% combined lead and zinc with approximately 40 grams of silver per tonne.

120 ton Wabco moves load of ore to the crusher

Rougher flotation section in the mill

Concentrate truck on new weigh scale of up-graded concentrate loadout facility

Mineral Exploration

Your Company's 1978 mineral exploration program comprised continued investigation of lead-zinc and coal prospects in the Yukon and British Columbia.

Drilling results from the program on the DY deposit, located 20 kilometres southeast of the Anvil Mine, while not conclusive as to tonnage and grade, continued to return encouraging intersections and maintained the probability of outlining a significant underground reserve. In addition to the initial 12 holes drilled in 1976 and 1977, 11 holes were drilled on the deposit in 1978. Four holes intersected high-grade mineralization, ranging from 2.8 to 13.7 metres in thickness and showing grades from 14 to 22% combined lead-zinc and 80 to 150 grams of silver per tonne. Three other holes intersected mineable thickness in excess of 10% combined lead-zinc with 50 to 70 grams of silver per tonne. Another hole returned marginal grades of 7 to 8% combined lead-zinc, while the remaining three holes on the northeastern margin of the deposit failed to intersect significant mineralization.

The result of this drilling has been to better define the deposit's northern edge and to help identify the potential area of highest ore grade. Additional drilling will be conducted in 1979.

Elsewhere in the Anvil District, drilling was confined to testing host rock stratigraphic units in the Swim Lakes area in the eastern part of the District. The exploration program in 1979 will include more extensive drilling along the Anvil belt, concentrating on favourable geological areas immediately northwest of the Faro deposits, northwest of the Grum deposit, between the DY and Swim deposits and in the vicinity of the SB/SEA deposits. In view of the new property acquisitions in these areas, an expansion of our exploration drilling effort in the Anvil District is essential for a thorough evaluation of the entire area and to provide the basis for optimal development of these deposits.

A number of other projects in the Yukon and British Columbia, mostly directed toward lead-zinc, were continued in 1978 under joint venture agreements with major companies, including Hudson's Bay Oil and Gas Company Limited, Metallgesellschaft AG, Preussag AG and Kerr Addison Mines Limited. A number of promising property situations are scheduled for further investigation in 1979.

Of particular interest is the continued exploration for lead-zinc north of Williston Lake in the Gataga region of northeastern British Columbia. In a 50-50 joint venture with Hudson's Bay, three large properties are being examined, and all contain zones of barite-associated lead-zinc-silver mineralization in a shale-hosted, massive-sulphide environment. Preliminary drill results on one of the properties yielded significant lead-zinc mineralization. An expanded program, with emphasis on diamond drilling on two of the three properties is planned for 1979.

The Company continued its exploration activities on its potential coal properties. On the Tulameen thermal coal project in the Princeton area of British Columbia, rotary drilling was carried out south of the previously delineated open-pit. Further, but modest, open-pit reserves were indicated in addition to the 10,000,000 tonnes already established. Firing tests, rail studies and some environment studies were also undertaken during the year, and a preliminary feasibility and market study is planned for 1979.

At the Telkwa thermal coal property near Smithers in north-western British Columbia, preliminary diamond drilling was undertaken. Additional exploration work will be required on this property.

The exploration potential in the Anvil District augmented by the new acquisitions and the DY deposit, together with the new discoveries of lead-zinc mineralization in northern B.C. and continued developments on thermal coal prospects, auger well for an eventful and successful exploration effort in 1979, and a further strengthening of your Company's overall growth capabilities.

Geologists examine massive sulphide core on MM project

Helicopter serviced drill site, Gataga Project

Core Logging, Gataga Project

Financial and Marketing

Several significant factors had an impact on your Company's performance in 1978. They resulted in a turnaround from a loss in the first six months of the year to a profit position in the last half and for the year as a whole.

These factors were:

- Higher than average mill feed grades of ore.
- A very substantial improvement in the prices received for zinc and for lead.
- Continued weakening of the Canadian dollar in terms of U.S. currency, the basis on which all export sales by the Company are made.

Principally as a result of its net earnings of $6,985,000 in 1978, the Company improved its working capital to $21,942,000 from $13,171,000 at the end of 1977.

From a marketing perspective, 1978 was a year of contrasts and of trial for the lead and zinc industry.

In zinc, the contrasts showed clearly. At the beginning of the year, prices declined to their lowest level in many years. Metal and concentrate stocks were excessive and a general feeling of pessimism prevailed in the marketplace. However, by the end of the year the outlook had improved. As a result of production curtailments, a slight recovery in consumption and large purchases by eastern bloc countries, excessive stocks were reduced and prices began and continued to recover. Prices are now higher than those which prevailed prior to the decline. Provided there are no significant downturns in economic activity, and assuming that production levels will not increase significantly a continuation of this improvement for zinc is anticipated.

For lead, market conditions were completely opposite to those for zinc. The average lead price received during the year was the highest in many years and has continued to rise into 1979. This strength reflects the exceptionally tight supply situation of primary lead metal and concentrates. Factors contributing to this supply situation include large purchases by eastern bloc countries, changing technology in the battery industry which now requires a higher proportion of primary metal, and a cold winter which has increased the demand for automobile batteries. A continuation, at least for the first half of 1979, of this tight supply situation and of strong prices can be expected for lead.

Concentrates produced in 1978 were shipped to smelters located in Japan, Germany, Canada, the United States, Britain, France and the Soviet Union. Most of these shipments were made under long and medium term sales agreements with Toho Zinc Co. Ltd. and Mitsui Mining and Smelting Co. Ltd., both of Japan; Metallgesellschaft AG of Germany; and Philipp Brothers Division of Engelhard Minerals and Chemicals Corporation, of the United States.

Agreement was reached with V/O Raznoimport, an agency of the Soviet government, whereby during the years 1979 and 1980 they will receive annually 15,000 dry tonnes of zinc concentrate and 15,000 dry tonnes of lead concentrate.

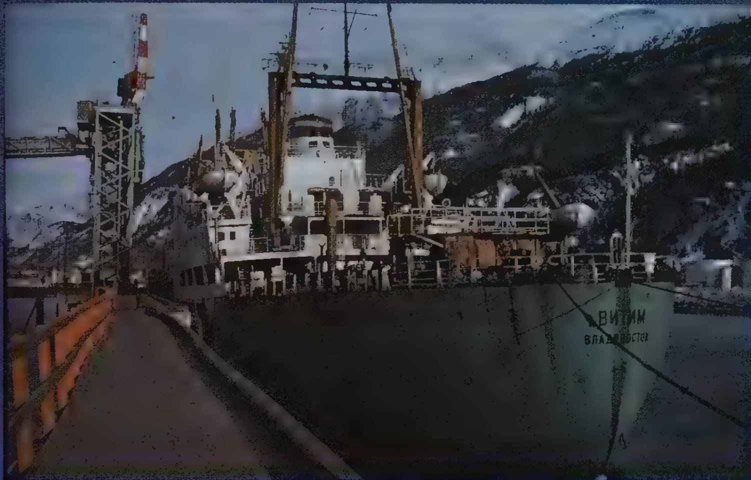
To meet all sales agreements, 1979 deliveries are scheduled at 255,000 dry tonnes of zinc concentrate, 133,000 dry tonnes of lead concentrate and 35,000 dry tonnes of bulk concentrate.

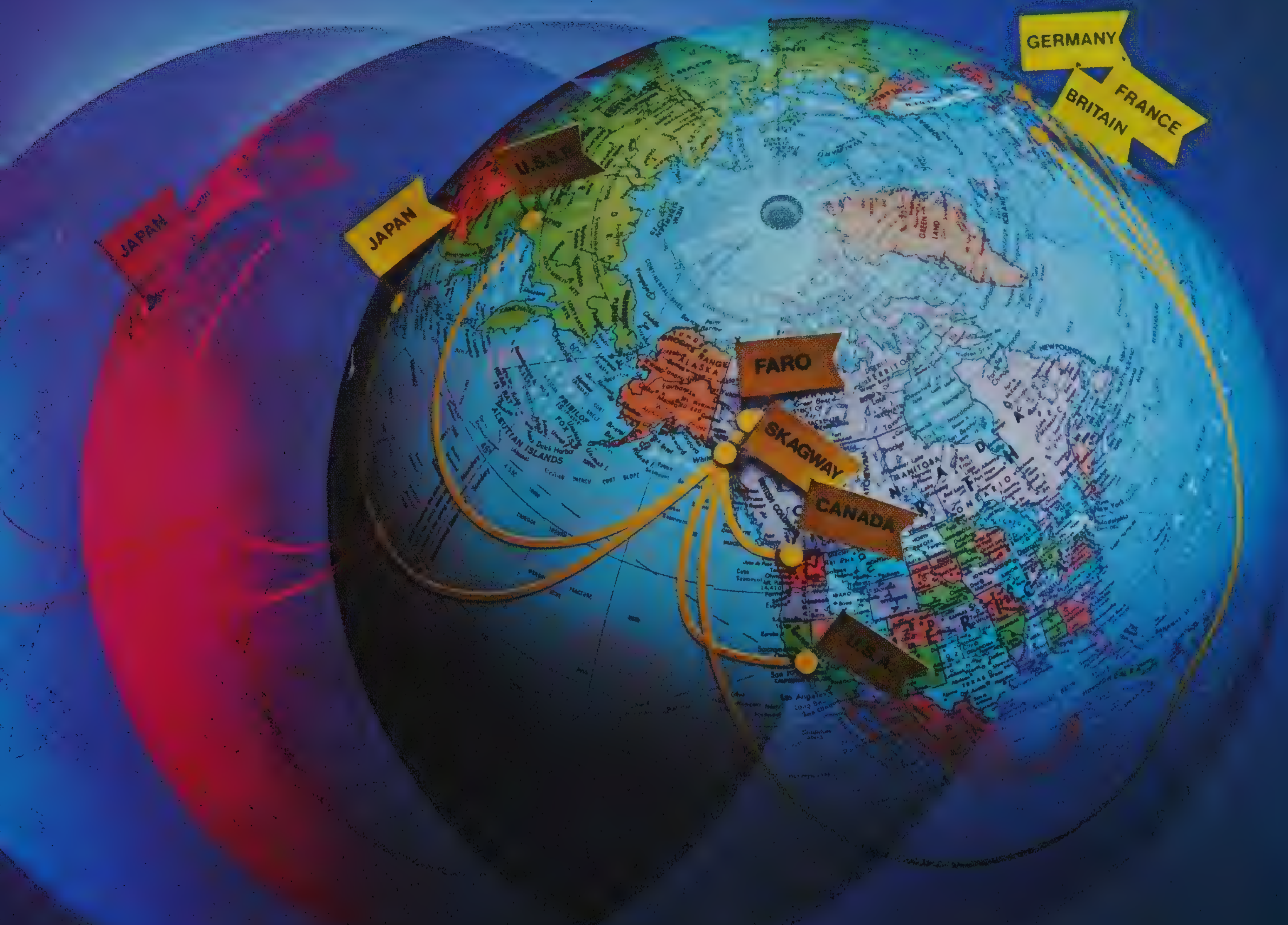
Shipments from Skagway, Alaska, in 1978 totalled approximately 368,000 dry tonnes, made up of 210,000 dry tonnes of zinc concentrate, 125,000 dry tonnes of lead concentrate, and 33,000 dry tonnes of bulk concentrate.

In the past year the White Pass and Yukon Route, the truck-and-rail line that transports concentrates from Faro to tidewater at Skagway, encountered problems involving capital and operating costs in their transportation system. We are hopeful these problems can be resolved within the context of the over-all transportation needs of the North.

A line of credit of $35,000,000 was arranged with the Company's bankers in 1978, incorporating the U.S. $10,000,000 equipment loan arranged in 1976. This line of credit provides your Company with considerable flexibility in that, it may, at the Company's option, be converted to a term loan and additionally either U.S. or Canadian currency may be selected. This line of credit has recently been increased to $50,000,000.

The acquisition of the Kerr Addison Mines Ltd., Canadian Natural Resources Ltd., and Vangorda Mines Ltd. properties in the Anvil District will significantly strengthen your Company's financial and marketing position. These additional reserves will substantially increase mine life which should strengthen the base from which the long-term marketing and financial options are approached.





M.V. VITIM loading first shipment of concentrate at Skagway for Russian contract.

New tandem-mode 40 tonne concentrate carrier leaving minesite for Whitehorse.

Now to the future cast your eyes,
For there, aye there, the challenge lies.
Unknown, unseen, untested yet,
But promise-filled for those who set
Their sights beyond some simple rôle
And seek a more demanding goal –
Find ore! More ore! And yet more still! –
Then face the task with iron will.

Anvil District Acquisition Program

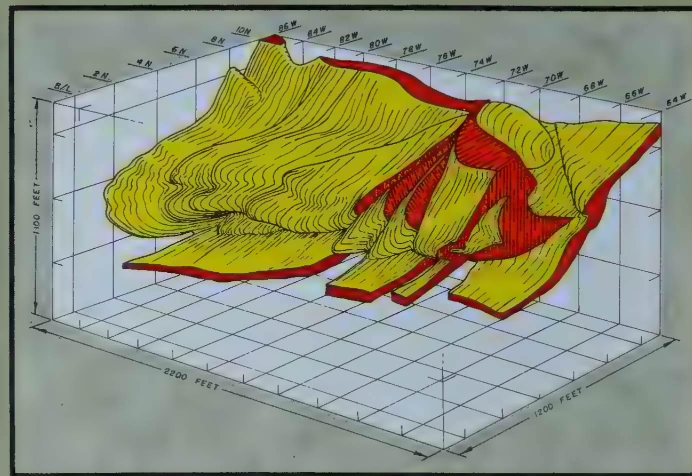
In late 1978 your Company reached agreement in principle to acquire a number of significant lead-zinc properties in the Anvil District of the Yukon.

Under the agreements with Kerr Addison Mines Ltd. and Canadian Natural Resources Ltd., Cyprus Anvil will acquire all of Kerr Addison and Canadian Natural Resources property interests within the Anvil mining district, as well as Kerr Addison's 70% interest in Vangorda Mines Ltd.

The total cost of these acquisitions will be approximately $22,000,000, including the cost of acquiring all the outstanding shares of Vangorda Mines Ltd. In addition, future production from most of the properties will be subject to a 5% net profits interest.

Early in 1979 Cyprus Anvil, Kerr Addison and Canadian Natural Resources formally approved the acquisition agreements and a take-over bid offer has been made for the minority share interest in Vangorda Mines Ltd. Application has been made to the Foreign Investment Review Agency for its approval and it is anticipated that all arrangements can be finalized by May 1st, 1979.

The most important properties to be acquired cover 31 square kilometres within the known mineralized central section of the Anvil District. Three significant deposits, the Grum, Vangorda and Swim, have been outlined by drilling and jointly have a total proven and indicated reserve of approximately 40,000,000 tonnes containing 8 to 10% combined lead-zinc and 40 to 60 grams of silver per tonne of ore. In addition to the drilled tonnage, there is considerable potential for adding to reserves to the northwest of Grum and for discovery of new deposits.



Grum Deposit, Main Sulphide Zone

The Grum deposit has a total proven reserve of approximately 27,800,000 tonnes of which half is in an open pit configuration containing 8.4% combined lead-zinc with 50 grams of silver per tonne of ore, after making conservative assumptions with respect to mining dilution. This deposit was extensively explored between 1974 and 1977 and has had many important technical and engineering factors determined by studies during that period. The Grum deposit and the Vangorda deposit are within feasible trucking distance of the Anvil concentrator.

On completion of all the necessary arrangements and the final closing, your Company will initiate a number of studies to determine the feasibility of phasing into production ore from the Grum deposit to be milled concurrently with Faro ore within the next few years. Preliminary studies indicate a high

Proven and Indicated Ore Reserves on Acquired Properties

	TONNAGE	GRADE		
		Lead	*Zinc*	*Silver*
Grum Deposit	27,800,000 tonnes	3.1%	4.9%	48 grams/tonne
Vangorda Deposit	8,500,000 tonnes	3.2%	5.0%	55 grams/tonne
Swim Deposit	4,300,000 tonnes	3.8%	4.7%	47 grams/tonne

Tonnage and grade for the Grum Deposit provide for mining dilution. Vangorda and Swim reserves are undiluted.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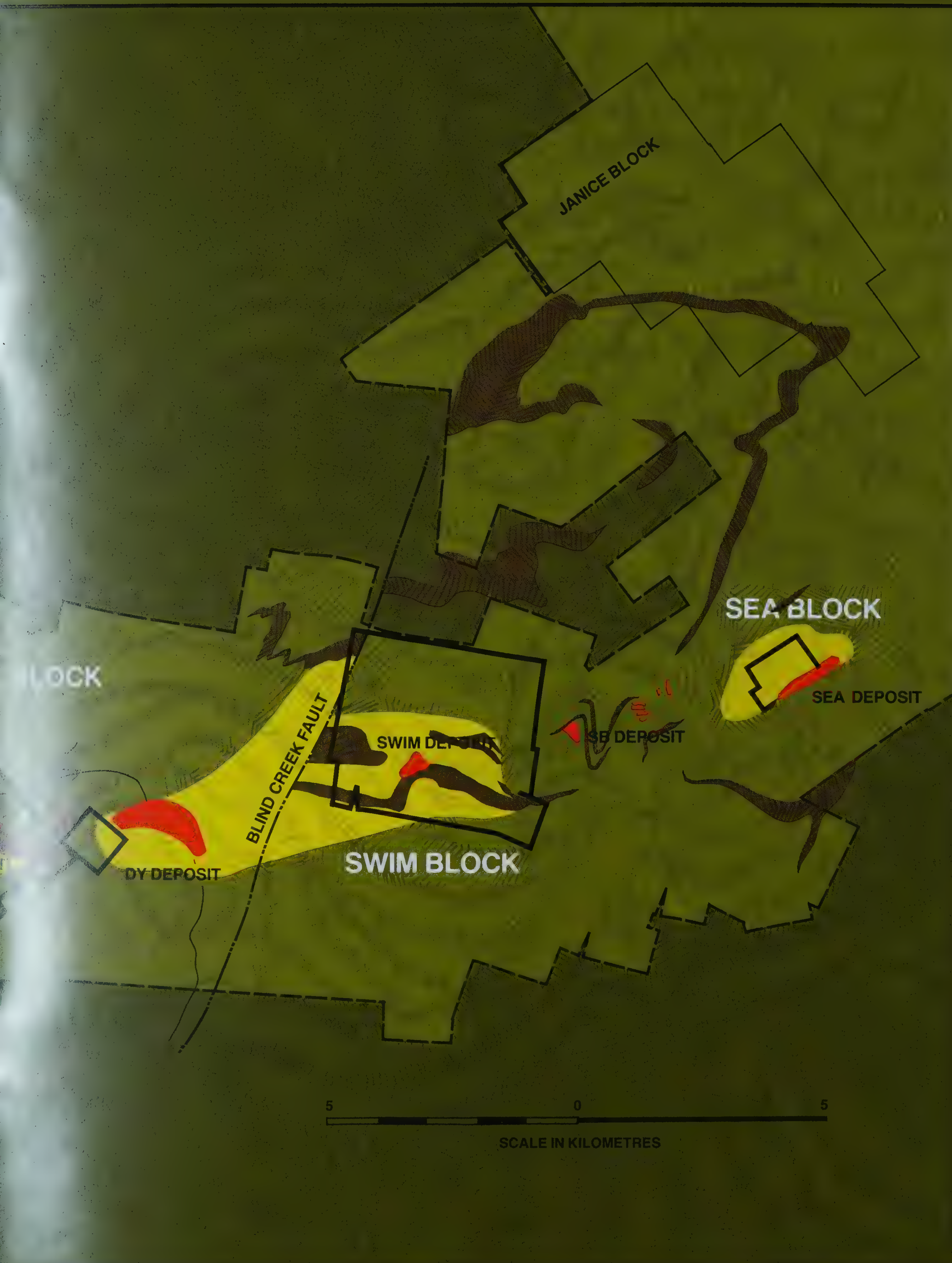
LEGEND
SURFACE TRACE OF FAVOURABLE HOST UNIT
AREAS OF PRIME EXPLORATION POTENTIAL
SULPHIDE DEPOSIT
ROAD (MAINTAINED)
PROPERTY ACQUISITIONS
CYPRUS ANVIL PROPERTIES
FARO DEPOSIT
CONCENTRATOR
GRUM-VANGORD
FIRTH DEPOSIT
GRUM DEPOSIT
DOAL LAKE FAULT
FARO
3 Km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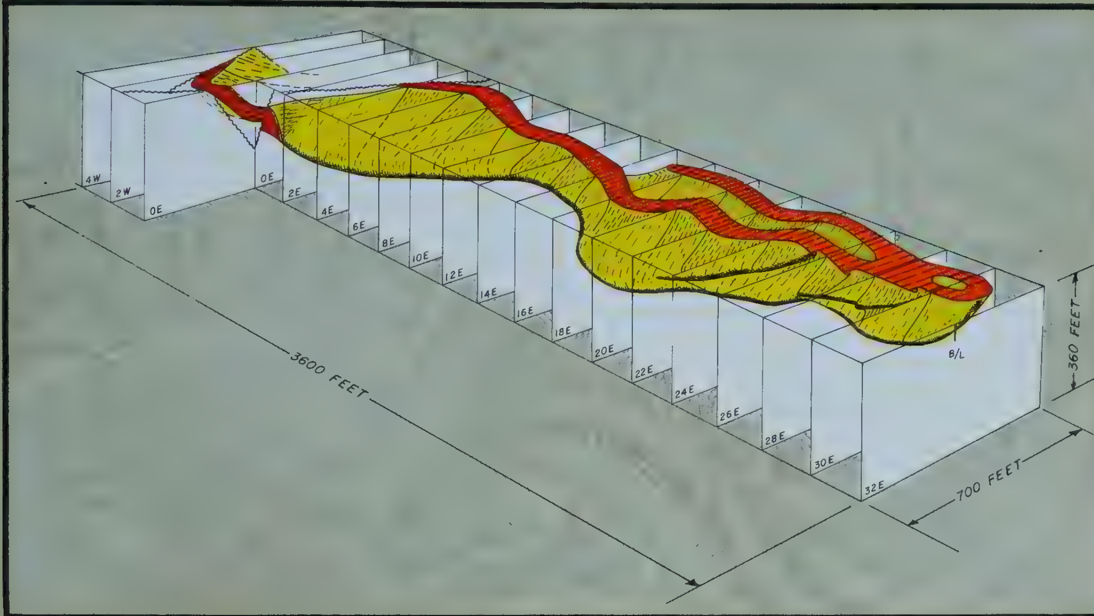


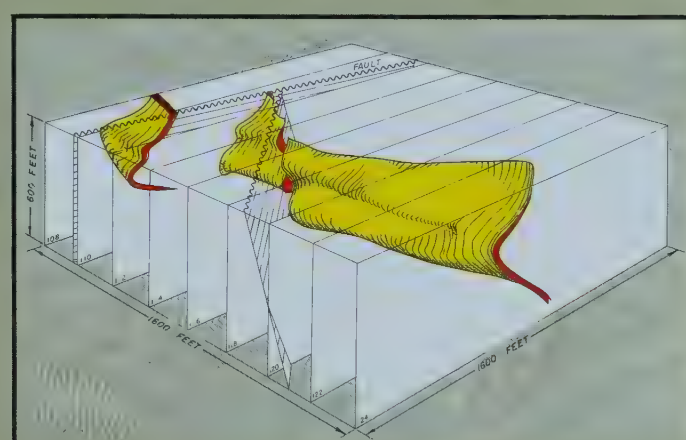
Vangorda Deposit, Main Sulphide Zone

probability of good economic return, principally as a result of higher grade ore being available from Grum than will be available from the Faro pit, starting 1982. There are many factors to be more thoroughly investigated, including modifications to the Anvil concentrator, development of definitive and alternate mining plans and metallurgical studies. It is intended to move these studies towards an over-all feasibility analysis at the earliest practical date.

It is also intended to further study the technical and economic feasibility of the Vangorda deposit which contains 8,500,000 tonnes of 8.2% combined lead-zinc, most of which can be mined by open-pit methods. The Vangorda deposit was explored in the mid-1950's and poor core recovery in many sections will necessitate additional drilling to give confidence in grade estimates, as well as to provide data required for mine planning and samples for metallurgical testing.

In addition to the proven and indicated reserves contained within the properties being acquired, there is additional exploration potential, particularly on the Swim Lake property, where a modest reserve has already been drill-indicated, and within the northwestern extension of the Grum deposit which presents a good probability of future underground ore reserves. Your Company's 1979 exploration program will include drill holes in both these areas.

The acquisition also includes Kerr Addison's 50% interest in the Janice claims which cover a large area in the northeastern part of the Anvil District. Preliminary exploration has been carried out in the last two years under a joint venture agreement between your Company and Kerr Addison Mines Ltd.



Swim Lake Deposit, Main Sulphide Zone

In addition to the open-pit reserves of the properties, the proven and indicated underground reserves, particularly at Grum, together with the exploration potential of all the properties, when combined with that of adjacent areas of existing Cyprus Anvil claims, should contribute significantly to reserves which will be ultimately economic.

The acquisition represents a very important step in the growth of your Company. A longer life is assured for Faro operations which will be more profitable as a result of the ability to phase a number of deposits into production in the most advantageous development sequence.

The Community of Faro

The acquisition of the Anvil District properties is a very positive factor in any assessment of the future of your Company and confidence in the future is an essential encouragement to ambitious, long-term employment with the Company.

The impact of the acquisition on our employees and particularly upon those in the community of Faro will be substantial.

The additional life of Cyprus Anvil operations at Faro provides continuity to the dominant commercial activity in the Yukon Territory. The impact on the population of the Yukon and its government, as well as the Federal Government, is significant and should strengthen the Company's relationship socially and politically. As the Company formulates its development plans over the next few years it should encounter a more favourable response from governments in light of its clear commitment to the future and as a result should enjoy long-term improvements in a number of areas, particularly transportation and power supply.

The Town of Faro, which is completely dependent on the profitability and life of Cyprus Anvil operations, will be in a better position to attract increased government support for schools and other facilities, improved housing development and additional local business activity. Pride in the community, which has been nurtured over past years by the Company, should find new meaning, particularly to the young people in the Town who may now look to Faro as a permanent rather than a temporary home.

All employees of the Company can now look forward to greater opportunities and a more secure future which should result in a more productive and stable work force.

To the men and women who make our Company what it is — the people working in the mine and in the mill, to those maintaining the plant, the equipment and the townsite, to the geologists, metallurgists and engineers, the accountants, the secretaries, the clerks and the storekeepers, performing the myriad tasks which ensure the growth and continuity of our Company — to these we dedicate this pictorial acknowledgement.

Consolidated Balance Sheet

Cyprus Anvil Mining Corporation Consolidated Balance Sheet as at December 31, 1978

Assets	1978 $ (000's)	1977 $ (000's)
Current Assets		
Cash and short-term deposits	107	1,326
Accounts receivable	332	632
Concentrate settlements receivable	16,585	11,267
Concentrate inventory	9,953	3,776
Supplies, at cost	5,890	4,958
Prepaid expenses	222	195
	33,089	22,154
Mineral Properties (note 3)	10,048	8,893
Fixed Assets (notes 4 and 6)	62,327	63,908
Deferred Costs (note 5)	26,458	22,331
	131,922	117,286

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Cyprus Anvil Mining Corporation as at December 31, 1978 and the consolidated statements of earnings, retained earnings and source and use of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We previously made a similar examination for the year ended December 31, 1977.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the source and use of its working capital for the year then ended in accordance with generally accepted accounting principles which, except for the change in method of accounting for the translation of foreign currencies referred to in note 2 to the financial statements, have been applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
January 15, 1979

Coopers & Lybrand
CHARTERED ACCOUNTANTS

Liabilities	1978 $ (000's)	1977 $ (000's)
Current Liabilities		
Bank advances	2,445	—
Accounts payable and accrued liabilities	5,557	5,883
Income taxes payable (note 8)	2,400	2,250
Current portion of long-term debt (note 6)	625	758
Current portion of deferred income taxes (note 8)	120	92
	11,147	8,983
Long-Term Debt (note 6)	22,489	16,987
Deferred Income Taxes (note 8)	17,849	16,727
Minority Interest in Subsidiary Company	65	65
	51,550	42,762
Shareholders' Equity		
Capital Stock (note 7)	3,466	3,461
Contributed Surplus	4,067	4,067
Retained Earnings	72,839	66,996
	80,372	74,524
	131,922	117,286

Signed on behalf of the Board

Director

Director

The accompanying notes are an integral part of this statement.

Consolidated Statement of Earnings

Cyprus Anvil Mining Corporation Consolidated Statement of Earnings for the year ended December 31, 1978

	1978 $ (000's)	1977 $ (000's)
Concentrate Sales	140,211	126,459
Deduct: Ocean freight, treatment and related charges	68,057	55,927
	72,154	70,532
Operating Expense		
Production, inland transportation and port costs	51,675	47,437
Administration and general	8,886	9,055
Depreciation	5,798	4,637
Amortization	1,742	1,483
(Increase) decrease in product inventory levels	(6,177)	1,630
	61,924	64,242
Operating Income	10,230	6,290
Other Expense (Income)		
Interest income	(110)	(186)
Interest on long-term debt	1,817	1,032
Other interest	150	6
Gain on disposal of assets	(202)	(10)
Exploration	531	601
Foreign exchange	(271)	(346)
	1,915	1,097
	8,315	5,193
Provision for Income Taxes and Yukon Royalty		
Income taxes (note 8)	1,150	226
Yukon royalty	180	33
	1,330	259
Net Earnings for the Year	6,985	4,934
Earnings per share	$0.92	$0.65

The accompanying notes are an integral part of this statement.

Consolidated Statement of Retained Earnings

Cyprus Anvil Mining Corporation Consolidated Statement of Retained Earnings
for the year ended December 31, 1978

	1978 $ (000's)	1977 $ (000's)
Retained Earnings — Beginning of Year	66,996	66,631
Net earnings for the year	6,985	4,934
	73,981	71,565
Dividends (note 9)	1,142	4,569
Retained Earnings — End of Year	72,839	66,996

The accompanying notes are an integral part of this statement.

Consolidated Statement of Source and Use of Working Capital

Cyprus Anvil Mining Corporation Consolidated Statement of Source and Use of Working Capital
for the year ended December 31, 1978

	1978 $ (000's)	1977 $ (000's)
Source of Working Capital		
From operations		
Net earnings for the year	6,985	4,934
Items not affecting working capital —		
Depreciation	5,798	4,637
Amortization	1,742	1,483
Deferred income tax	1,122	589
	15,647	11,643
Bank loan	6,436	10,510
Advances from minority interest shareholders	4	59
Issue of shares	5	—
Notes payable	—	1,300
	22,092	23,512
Use of Working Capital		
Dividends	1,142	4,569
Long-term debt reduction	938	77
Fixed asset additions	4,217	11,025
Mineral properties	1,256	4,141
Deferred costs	1,108	112
Deferred waste removal	4,660	885
	13,321	20,809
Net Increase in Working Capital	8,771	2,703
Working Capital — beginning of year	13,171	10,468
Working Capital — end of year	21,942	13,171
Represented by:		
Current assets	33,089	22,154
Current liabilities	11,147	8,983
Working Capital — end of year	21,942	13,171

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

For the year ended December 31, 1978

1. *Significant Accounting Policies*

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the company and its subsidiary companies which are:

	Percentage ownership %
Pelly River Mines Limited (N.P.L.)	63
Kakwa Mines Ltd.	100

Acquisitions of subsidiaries have been accounted for by the purchase method. The excess of cost over the underlying net book value of subsidiaries at the date of acquisition is capitalized and allocated to the assets giving rise to the excess cost. If the assets themselves are being amortized, the excess cost is amortized on the same basis.

(b) Concentrate Sales and Settlements Receivable

Concentrate sales and settlements receivable are recorded at the metal prices, weights and assays available at the year-end. Final prices, weights and assays are not known on a portion of the sales until some time after the year-end; accordingly amounts ultimately received may vary from those recorded.

(c) Concentrate Inventory

Concentrate inventory is valued at the lower of average cost, on an annual FIFO basis, or estimated net realizable value. Average cost for each type of concentrate is determined on the joint product costing basis using relative sales values for proration of costs which includes all production costs and appropriate depreciation, amortization and general and administrative costs, being the full absorption method of inventory cost determination.

(d) Depreciation and Amortization

Depreciation and amortization are calculated on the basis of the shorter of estimated useful life or pounds of metal produced in relation to total estimated marketable pounds of metal available from the orebody.

(e) Mineral Properties and Related Development Costs

The company defers exploration and development costs at such time as it is determined that there is a reasonable degree of certainty as to the existence of economically recoverable mineral reserves within defined areas of interest. All costs will be amortized against future production from that area or written off if the property is abandoned or sold.

(f) Exploration Costs

The company expenses all exploration project costs, outside defined areas of interest, in the period in which they are incurred. Exploration costs include the cost of properties not yet in the development stage.

(g) Deferred Costs

(i) Preproduction

Preproduction costs represent all costs of bringing the mine into production, including development costs but excluding fixed assets. Preproduction costs are deferred and are amortized on the basis of pounds of metal produced in relation to total estimated marketable pounds of metal available from the orebody.

(ii) Waste removal

Removal of waste is charged to production based on a waste-to-ore ratio for the life of the mine. Deferred waste removal costs arise when the waste-to-ore ratio exceeds the estimated average for the life of the mine. When the removal of waste is less than the estimated waste-to-ore ratio for the life of the mine, a provision for future removal costs results.

(h) Foreign Currencies

Foreign currencies have been converted into Canadian dollars as follows:

(i) current assets and current liabilities at rates in effect at the end of the year;

(ii) long-term debt at year-end rates with unrealized exchange gains and losses being deferred and amortized over the remaining life of the debt;

(iii) all other assets, revenue and expense items at rates in effect at dates of transactions.

2. *Change in Accounting Policy*

In 1978, the company changed its method of accounting for the translation of foreign currency into Canadian dollars (note 1), in acccordance with the recommendation of the Canadian Institute of Chartered Accountants. Previously, no unrealized exchange gains and losses relating to the long-term debt portion of liabilities were recognized in the accounts. The recommendation adopted has not been applied retroactively. The effect of retroactive application on net earnings in the current and prior years is not significant.

3. *Mineral Properties*

	1978 $ (000's)	*1977 $ (000's)*
Mineral properties and related development at cost	10,430	9,174
Less: Accumulated amortization	382	281
	10,048	8,893

Notes continued

4. Fixed Assets

	1978			1977
	Cost $ (000's)	Accumulated depreciation $ (000's)	Net $ (000's)	Net $ (000's)
Mine buildings, machinery and equipment	76,842	24,779	52,063	51,916
Construction in progress	20		20	894
Townsite buildings and equipment	14,365	4,121	10,244	11,098
	91,227	28,900	62,327	63,908

5. Deferred Costs

	1978 $ (000's)	*1977 $ (000's)*
Preproduction — at cost	33,902	33,902
Less:		
Accumulated amortization	12,759	11,118
	21,143	22,784
Unamortized unrealized foreign exchange loss (notes 1 and 2)	1,108	—
Waste removal (note 1)	4,095	(565)
Other deferred costs	112	112
	26,458	22,331

6. Long-Term Debt

(a)

	1978 $ (000's)	*1977 $ (000's)*
8½% — 11¾% mortgages secured by townsite buildings, repayable in varying annual amounts to the year 2000	4,878	5,094
Non-interest bearing notes payable	1,095	1,950
Advances from minority interest shareholders	195	191
Bank loans		
Repayable in Canadian currency	3,900	—
Repayable in U.S. currency ($11,000,000 U.S.; 1977 — $10,000,000 U.S.) (notes 1 and 2)	13,046	10,510
	23,114	17,745
Less: Current portion	625	758
	22,489	16,987

(b) The non-interest bearing notes consist of two notes, $477,297 and $618,044, due January 1, 1979 and 1980 respectively.

(c) The company has a $35,000,000 line of credit with its bankers which is available in domestic and U.S. currencies of which the company has drawn $14,900,000. At its option, the company may convert any portion of the outstanding balances to a term loan at any time prior to January 15, 1981, to mature on January 15, 1985 with repayment to be made in equal semi-annual instalments payable on January 15 and July 15 of each year from the date of conversion. Should the company not exercise its option to convert to a term loan, the outstanding balance becomes due on January 15, 1981.

Interest is payable monthly on amounts drawn at rates which vary directly in relation to prime for the domestic currency loan and LIBO (London Interbank Offering rate) for the U.S. currency loan.

Security for the debt is not finalized other than that it will include at least a general assignment of book debts and a pledge of inventory. It is contemplated that the debt conditions will include a requirement that dividends shall not exceed the greater of $1,200,000 or 50% of net profits, as defined, for the year, calculated on a non-cumulative basis in each of the 1978 and 1979 calendar years or the proportionate equivalent thereof in the first half of the 1980 calendar year, without prior written consent of the lenders.

The line of credit has subsequently been increased to $50,000,000 with repayment terms and security yet to be finalized.

7. Capital Stock

(a)	*1978 $*	*1977 $*
Authorized — 100,000,000 common shares, without par value		
Issued and fully paid — 7,615,773 shares (1977 — 7,615,250 shares)	3,466,242	3,460,750

(b) There are certain restrictions in the bank loan agreement as to the maximum amount of dividends which may be paid (see note 6(c)).

(c) In 1978, 200,000 common shares of the company were reserved under a stock option plan. During 1978, options were exercised resulting in the issue of 523 shares for $5,492 and options on 154,000 shares were outstanding at December 31, 1978.

8. Income Taxes

(a) Income taxes charged in computing the net earnings are summarized as follows:

	1978	1977
	$	$
Deferred — current portion	120,000	(363,000)
— long-term portion	1,030,000	589,000
Provision for income taxes	1,150,000	226,000

(b) Deferred taxes represent the difference in the total tax provision and taxes currently payable. The difference arises during years that expenses allowed as deduction for tax purposes exceed the corresponding expense deducted in computing net earnings for financial statement purposes ("timing differences"). The principal timing differences giving rise to deferred taxes are as follows:

(i) Depreciation deducted for tax purposes (capital cost allowance) exceeded book depreciation for the year.

(ii) Exploration and/or preproduction costs deducted for tax purposes exceeded book amortization and/or write-offs for the year.

(c) The company's federal income tax returns for all years to 1975 are presently under routine examination by Revenue Canada — Taxation. Certain issues are still under review, no reassessments have been received and the final liability cannot be determined. At this time, management and tax advisors are of the opinion that adequate provision has been made in the accounts.

9. Dividends

Dividends totalling $1,142,366 (1977 — $4,569,150) were declared and paid in the year on the 7,615,773 (1977 — 7,615,250) shares outstanding.

10. Statutory Information

The aggregate direct remuneration paid or payable during the year to directors and officers amounted to $531,000 (1977 — $502,000).

11. Commitments

The company has outstanding commitments of approximately $319,000 with respect to acquisition of fixed assets.

12. Agreement To Acquire Mineral Properties

In November 1978, the company agreed in principle to acquire certain mining properties from Kerr Addison Mines Limited and Canadian Natural Resources Limited plus Kerr Addison's 70% interest in the outstanding shares of Vangorda Mines Limited. The agreement in principle is subject to certain conditions and various approvals including the approvals of the directors of the respective companies.

Total cost to the company would be approximately $22 million which includes an amount for purchase of the 30% minority interest in Vangorda Mines Limited. Kerr Addison and Canadian Natural Resources would retain a 5% net profits interest, as defined, in certain of the properties, payable after recovery of all related costs of acquisition and capital, including interest.

13. Contingent Liability

The company is in the process of establishing a pension arrangement for executives which will include rights and entitlements with respect to past services. The final plan has not yet been formalized and amounts due for past and current services cannot be quantified at this time.

Directors and Officers

Directors

Paul W. Allen
Executive Vice President
Cyprus Mines Corporation

Morris Belkin
President
Belkin Packaging Ltd.

John Bruk
President and Chief
Executive Officer

R.E. Gordon Davis
Executive Vice President

Richard R. Grantham
Senior Vice President
and Treasurer
Cyprus Mines Corporation

Kenneth Lieber
President
Cyprus Mines Corporation

Donovan F. Miller
Chairman & Chief Executive Officer
Canadian Fishing Company Ltd.

H. Richard Whittall
Partner
Richardson Securities of Canada

Allen T. Lambert
Company Director and
former Chairman,
The Toronto-Dominion Bank

Patrick M. Reynolds
Chairman
Bethlehem Copper Ltd.

Officers

Kenneth Lieber
Chairman of the Board

John Bruk
President and Chief Executive Officer

R.E. Gordon Davis
Executive Vice President

A. Keith Mitchell
Secretary

James F. Olk
Senior Vice President

Robert L. Cook
Senior Vice President and Treasurer

Paul W. Allen
Vice President

Selwyn B. Jones
Vice President Administration

J. Glenn Simpson
Vice President Exploration

Andrew H. von Kursell
Vice President, Yukon Operations

Theodore S. Andrew
Comptroller

Thomas H. Biggs
Assistant Treasurer

Patrick J. McLean
Assistant Secretary

Joyce D. Willington
Assistant Secretary

Senior Staff and Corporate Directory

Senior Staff

OPERATIONS

L. Peter Taggart
Manager of Operations

John C. Devitt
Mine Superintendent

Joseph B. Lidster
Manager, Personnel &
Industrial Relations

Robert C. Smith
Mill Superintendent

William N. Wallinger
Superintendent, Technical Services

Raymond L. Webb
Superintendent, Purchasing and
Supplies

George H. Wight
Chief Accountant

Ward M.S. Wimborne
Mechanical Superintendent

EXPLORATION

David S. Jennings
Chief Geologist

Corporate Directory

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Registered Office and Records Office:
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700 West Georgia Street
Vancouver, British Columbia

Mine Office:
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Faro, Yukon Territory

Auditors:
Coopers & Lybrand
Royal Bank Building
1055 West Georgia Street
Vancouver, British Columbia

Solicitors:
Farris, Vaughan, Wills & Murphy
Toronto Dominion Bank Tower
700 West Georgia Street
Vancouver, British Columbia

Employees' Union:
United Steelworkers of America
Operating Employees
Locals 1051 & 7745
Faro and Carmacks, Yukon Territory
Office & Technical Employees
Local 8243
Faro, Yukon Territory

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Centrespread Verse
Adapted by Selwyn B. Jones from
his poem 'We knew you when.'
Design Don Wimbles
Separations Graphic Industries Ltd.
Lithography Western Miner Press Ltd.
Typography POLA/graphics Ltd.
Printed in Canada

CYPRUS ANVIL